

as units, should make the contributions and not the local governments, and the reason for their attitude, I think, and the reason for our attitude, is the point which I am just about the make, that the only source, or the principal source of revenue to local government, is revenue from property taxes. Many of us feel, and some groups feel very strongly, that property has carried too much of the burden. Now a State, as well as the Federal Government, has many other sources of revenue. A State may levy an income tax, it may levy a sales tax, a gasoline tax, and it has other sources of revenue which would be very detrimental for a local community to levy.

This provision in the bill says that a substantial contribution shall be made by the State. We have seen in the relief situation, in Massachusetts as one extreme example, not a cent of contribution was made by the State government, and the local communities had to carry it all.

Senator BYRD. Where is that?

Mr. REEDER. On page 3, line 6. If this is injected in the bill it does not mean the local governments cannot still be called on by the State to make the contribution, but the State government, as such, must make a definite contribuion.

Senator KING. Proceed.

Mr. REEDER. We are anxious not to leave any loopholes which, either through too general phraseology, or discretionary action by Federal authorities, States may be enabled to "pass the buck" to those units of government which are dependent almost entirely upon revenues from the general property tax.

I feel sure that in view of the apparent intent of the plan, the Economic Security Committee would support this minor change.

I thank you.

Senator KING. Thank you very much. Mr. Forster, come forward, please.

STATEMENT OF H. WALTER FORSTER, LIFE INSURANCE AND PENSION DIVISION OF TOWERS, PERRIN, FORSTER & CROSBY, INC., PHILADELPHIA, PA.

Mr. FORSTER. My name is H. Walter Forster. I am vice president of Towers, Perrin, Forster & Crosby, Inc., of Philadelphia, and in charge of the pension consulting division of that corporation.

Since 1906 I have devoted most of my time to consulting work for important operations, dealing with employer-employee relationship, and from 1917 on an increasing scale, supported by a large staff, I have devoted myself to the problem of pensions for such employees.

During the past few months, when this legislation was pending, our clients, and many other corporations, have uniformly raised the question as to whether the bill which would be passed might not properly have a provision in it under which a pension plan already in force and properly financed, and more liberal as to benefits, might be continued, and that in the future more liberal and properly financed pension plans might be established. That is a reasonable request? in my judgment, and it is one which George A. Huggins of Philadelphia presented recently before you in behalf of certain churches, and Mr. Marion B. Folsom of the Eastman Kodak Co. also suggested to you. I had the pleasure of being the consultant to the

Eastman Kodak Co. on that plan. I have prepared a brief, Mr. Chairman, which covers the point and contains alternative amendments, one rather detailed and one very simple. If you will grant me a very few minutes I will try to give the gist of the argument.

Senator KING. Is your brief printed?

Mr. FORSTER. I have one copy with me.

Senator KING. I wish you would leave a few copies with the clerk of the committee.

Mr. FORSTER. I have four or five other copies which I shall be glad to leave with you.

Mr. Folsom yesterday, in answer to a question, stated there are some 400 industrial plants in America who have a pension plan, and when you add the utility and financial institutions you have 600 such plans, covering two or three million people.

Senator KING. I think it was 300 plants.

Mr. FORSTER. Approximately that many have reserves behind them. These reserves are set out irrevocably with insurance companies and trustees, totaling at least \$700,000,000. In other words, American business has put money behind its belief in pensions. It seems reasonable that you should, as representatives of the welfare of the Nation, not cut down the prospective benefits of employees who are fortunate enough now to be under these plans, or who hereafter come under plans of that character, providing the benefits in all cases are equal or better and the reserves are set up in a manner approved by the Social Insurance Board. There is no thought for a moment that there should be any falling below the minimum standard which you have set. Incidentally, gentlemen, the fact that there are today these plans in force is excellent evidence of the general propriety of extending the idea of pensions for people gainfully employed.

Senator KING. Do you think if this plan which is now under consideration by this committee should go through, it would have a detrimental or injurious effect upon these four-hundred-and-odd organizations or the provisions which have been made for pensions?

Mr. FORSTER. That is a very pertinent question, Senator. I should say that in a good number of cases where employers had seen fit to build up first-class plans, if they had to take the employees out of those and put them in the Federal plan, they might very logically say, "We do not care any more about our own plans. If we cannot go on with first class, admittedly safeguarded propositions, why go ahead with any private plans?" Your standard is a minimum standard. You want to do everything you can to encourage citizens having pensions in excess of such a minimum.

Senator KING. Are you going to submit to us a proposition so that we might, in legislating, continue and preserve the schemes which have been made by these organizations?

Mr. FORSTER. Exactly so.

Senator KING. And at the same time go forward with a general plan?

Mr. FORSTER. Our clients have, speaking largely, no objection to a Federal pension plan. The only question is, do not destroy or tear down or minimize what already has been established. We have an excellent example, gentlemen, of the propriety of not doing that in the fact that this bill before you excludes Federal employees, who are

under a pension plan. Why is that? I think, although I am not in the confidence of the men who drew the bill, it is because they have a plan that is better as to benefits, and there is money behind it. Incidentally, those employees are contributing now, and have for 8 years,  $3\frac{1}{2}$  percent of their pay toward the pension plan. That is far more than proposed under the various scales that have come before you.

You realize that the problem is a tremendously difficult one. Various competent men have appeared before you and proposed different terms for the benefits, the contributions, and so on. Necessarily, the system is an experimental one and it is going to take years before this proposition settles down to what might be termed a permanent basis, as it is in England, where they pay a pension of 10 shillings a week; nothing as liberal as here proposed.

Senator **KING**. You think a plan could be provided in the bill by which they could integrate these organizations with the organizations set up by this bill?

Mr. **FORSTER**. Absolutely. The only two provisions you would have to make would be, first, that private plans of that character may be operate!; and, second, if an employee who elects to come under such a private plan thereafter leaves his employment, there should be set up for him security similar in character as if he stayed under the Federal plan.

Senator **KING**. How can we interdict the States from imposing like burdens, through property taxation or otherwise, upon the 400 associations or those who set these plans up?

Mr. **FORSTER**. I am speaking, Senator, only of titles III and IV which apply to the contributory old-age annuity plan, which is a Federal project pure and simple. There is no proposal in the plan that the States shall have anything to do with it.

Senator **KING**. You are not talking, then, of the old-age pensions in the act!

Mr. **FORSTER**. Not the old-age pensions which are gratuitous. I am talking about pensions which are a matter of right of workers who fulfill certain requirements.

Senator **COUZENS**. Do you include unemployment insurance?

Mr. **FORSTER**. No, sir ; 'I am speaking strictly of titles III and IV. The proposal is that the social-insurance board, which is set up as an agency to administer this plan, shall have the right to determine that plans which employers have or may desire to inaugurate are actually equal or better, and that the financial agency used, which presumably will be the great life-insurance companies, but, not necessarily so, will be satisfactory to them ; and if they can be so satisfied, then the employer shall be permitted to operate such a plan, with the right of supervision and revocation of that right, for necessarily the Nation must be certain that no citizen is not treated as favorably as this bill intends he shall be treated.

Senator **COUZENS**. Did you have anything to do with the Eastman Kodak set-up of the unemployment plan ?

Mr. **FORSTER**. No. Mr. Folsom is outstandingly able in that field. He is one of the few men who appeared before you on the unemployment subject who has had actual experience with it. He has also had

practical pension experience. So have I, for some 18 years. you know there are about 300,000 employees who are voluntarily contributing to these plans.

Senator COUZENS. Where are the funds kept in that case? Are they under the jurisdiction of the corporation?

Mr. FORSTER. The funds are always set up outside the corporation's control and are kept either in life-insurance companies or by trustees.

Senator COUZENS. There is no danger of having the funds dissipated?

Mr. FORSTER. No, sir; I know of 200 or more cases where the employer has no right whatsoever to this reserve except as it is paid out in pensions to his employees. That is his only right. He cannot recapture the fund. That is essential.

Senator COUZENS. Very essential. I was interested in where the funds are kept and who does control the funds.

Mr. FORSTER. The funds are kept, to a large extent, by life-insurance companies, and to a considerable extent by corporate trustees, and in some cases by officers of corporations acting as trustees to whom they are irrevocably assigned.

Senator COUZENS. Is there any limitation of the investment that those funds may be in?

Mr. FORSTER. The life-insurance companies of necessity are controlled by law. The corporate trustees who are acting, and private individuals acting as trustees, generally use very conservative methods of investment, because we have a long-time obligation here which will mature many years hence for most employees, and it requires conservative investment.

Senator KING. You may proceed with your talk, Mr. Forster.

Mr. FORSTER. One of the arguments, Mr. Chairman, in favor of this procedure is this: You have had much testimony before you that the Treasurer of the United States is concerned about the difficulty of investing large amounts of money in Federal securities. To the extent to which present plans or future plans can find safe avenues of investment, through life-insurance companies and trustees, in gilt-edged securities other than Federal securities, you are helping to support the entire social insurance program. Every dollar that is behind pensions in gilt-edged investments strengthens the whole program.

There is one other point, Mr. Chairman, that I would like to touch upon. Yesterday, one of you gentlemen asked Mr. Folsom whether he thought it was desirable for the Government to enter into the selling of individual annuities under the voluntary annuity provision. Mr. Folsom said he presumed, and he is correct in that respect, that it was a way by which persons who could save only small sums of money might set it aside for their own old age. You have, of course, under the Federal Government, the Postal Savings System, and you have the new baby-bond plan which has just been approved. So there are adequate means to save money for any purpose whatsoever. They could turn to the life-insurance companies, if they cared to, and buy annuities with minimum premiums of \$10 a month, or greater, or for any larger capital sum. It could be feasible to eliminate the voluntary annuity provision from the bill, because its gen-

eral use, based upon Canadian experience and Italian experience, indicates it is an unnecessary provision to an otherwise fundamental, desirable program. I am not urging that upon you, but, as I say, there are facilities for accumulating small sums of money with Government help at the present time.

Senator KING. As viewed by the past, if any authority were given to agencies of the Federal Government., it is assumed that a large bureau would be set up, with tremendous machinery and at tremendous cost at the inception of this annuity plan, although the plan itself would assume very small proportions?

Mr. FORSTER. That is a possibility.

Senator KING. I think it is a certainty.

Mr. FORSTER. Perhaps you are right, sir. I do not know. I do know that in Europe the administrative forces for looking after projects of this character are astonishing large. That is an element of the cost which, of course, has to fall on us all, because in the aggregate we citizens, out of our earnings, have to produce the benefits.

Senator COUZENS. Have you any figures showing the percentage of cost for taking care of these funds?

Mr. FORSTER. Six or seven life-insurance companies, with whose figures I am quite familiar, are at the present time spending about 2 percent, of income in pension reserves for administration.

Senator COUZENS. Have you any figures as to what it costs in these private enterprises that have these pension funds?

Mr. FORSTER. In those cases, sir, it is usually nothing because the officers act as trustees without extra compensation and the clerical work is absorbed. In other words, the administration has been very moderate.

Senator KING. Is that true of all of the 400?

Mr. FORSTER. As to about 300, that is true. The funds in the hands of the insurance companies are all operated at about that expense ratio. If a corporation is retained to handle the money, it has a very moderate amount of work, simply the investment and safeguarding of funds. The granting of pensions is done by the management, of course.

Senator KING. There is one question that I asked a few moments ago and I am not quite satisfied as to the result of the integration of these organizations with the Federal Government. Take, for instance, the question of the old-age pensions. The State is putting up a certain amount, and the Federal Government is matching it. Notwithstanding your pension plans, and assuming that they are continued and nothing in any bill that we may pass interferes with the continuity of those organizations, and others of like character that may be formed, would not those corporations, notwithstanding they may have a better system of dealing with their employees than that provided by the State and Federal Government, be compelled to pay under the old-age pension provision of \$10, \$15, or \$18 a month?

Mr. FORSTER. Yes, sir.

Senator KING. You would have to pay that?

Mr. FORSTER. Yes, sir.

Senator KING. Although you may be carrying out your pension plan for those who have reached 60 or 65 years of age, you may still have to pay to the State fund?

Mr. FORSTER. You would be allowed a credit to the extent of your fund as far as title III was concerned, but you would still have your taxes payable to the State. As far as the State is concerned, the corporation will have to pay its share of taxes with which the \$15 benefit is supported.

Senator KING. Then it may set up a fund and administer it, under the terms of which its employees who reach 60 or 65 years of age may receive pensions in excess of those granted by the Federal Government and by the State, and yet at the same time be compelled to pay State taxes to the State?

Mr. FORSTER. Yes, sir.

Senator KING. To pay for the old-age pensions of those who are outside of that corporation?

Mr. FORSTER. That is correct. All we are asking in our suggested amendment is that as to those employers and their employees who want to do so, and who operate these approved plans, a remission of taxes levied under this bill may be made up to the extent to which they make the payments into these funds. No corporation will come to the Social Insurance Board and ask to operate in this way unless it is going to have better benefits and put in more money; that is obvious.

Senator KING. I still do not make myself clear. It would seem to me that with the possibility-with the certainty indeed-that you continue these private pension organizations that have been formed by these four hundred and more and pay old-age pensions, if you are expected to tax yourself to provide for your own old-age pension system and then you have to pay taxes to the Government? I suppose you would be driven out of business.

Mr. FORSTER. I do not think so, sir, for the basic reason, the underlying reason, why these pension plans exist is as an efficiency measure. These liberal pensions are designed to get rid of ineffective men, for the welfare of the business and for the self-respecting retirement of men who have given many years of service. It is an efficiency measure inherently; therefore if a corporation has, in the past, been able to afford such a pension plan and we hope it will be able to do so in the future-it is going to be able to meet its share of Federal taxes other than under title III and any State taxes that may be imposed on it.

Senator KING. In addition to its own pension system?

Mr. FORSTER. Yes, sir; absolutely. Thank you very much.

SUPPLEMENTAL STATEMENT OF H. WALTER FORSTER BEFORE THE COMMITTEE ON FINANCE, UNITED STATES SENATE, SEVENTY-FOURTH CONGRESS, FIRST SESSION, ON SENATE BILL 1130

1. I am the vice president in charge of the life insurance and pension division of Towers, Perrin, Forster & Crosby, Inc., of Philadelphia. That corporation and the former firm of Brown, Crosby & Co., of Philadelphia, in which I was a senior partner in charge of the same division, have been pension consultants since 1917.

2. We have been retained by many important corporations and have assisted in the installation of new or revised pension plans. Some of our clients have insured their plans; others have turned over substantial reserves to trustees other than life-insurance companies, to the end that their employees might be assured of eventual retirement income; a number have asked their employees to contribute toward the cost of these plans, in every case with almost a 100-percent response.

3. In discussing impending Federal pension legislation with our clients and other corporations, the question was quite uniformly raised as to whether the proposed legislation would permit employers, in lieu of the Federal plan, to

continue in force existing employer plans, to inaugurate new employer plans prior to the effective date of the Federal plan, or thereafter' to, substitute employer plans for the Federal plan, provided, in each case, the employer plan, in operation or proposed, could be shown to the satisfaction of the Government to be properly financed and equal to or more liberal than the Federal plan. A study of the bill now before Congress discloses the fact that apparently no such provision is included. Hence, my appearance to request amendment to cover that point. I appear as a student of, and consultant upon, the pension problem, and not as a representative of any specific client.

4. My remarks are limited to titles 3 and 4, dealing with the contributory old-age annuity plan. After discussing the principle, I am proposing an amendment to permit certified private annuity plans.

#### PRIVATE PENSION PLANS NOW IN FORCE

5. Most persons are familiar with the fact that Federal, State, and municipal employees are generally under pension plans, and that the same thing is true of most railway employees. However, many persons do not know the extent to which pension plans have been adopted by American business enterprises. Mr. Murray W. Latimer, in his outstanding book, *Industrial Pension Systems*, recorded up to May 1932, exclusive of governmental and railway-pension plans, no less than 434 formal American pension plans in organizations employing over 2,000,000 persons. Since that time the number of plans has grown to exceed 600, and the number of persons covered has also increased. For the purpose of my argument, however, only those plans warrant consideration which now have reserves behind them. The following is a conservative statement of the situation at the present time:

(a) At least 300 plans of industrial and financial institutions and public utilities, other than railways, have reserves irrevocably set aside with life-insurance companies or other trustees.

(b) These reserves aggregate at least \$700,000,000 and are rapidly being increased.

(c) Over 1,000,000 persons are employed by these organizations, and those who remain to pension age will participate in the benefits of the plans.

(d) Approximately 300,000 of these employees now are contributing toward the cost of their eventual benefits.

6. These pension plans, established voluntarily and primarily as an efficiency measure, constitute the best possible argument for the general application of the pension idea to persons gainfully employed.

#### PROPOSED SAFEGUARDS FOR EMPLOYEES

7. While the desirability of a Federal pension plan is widely recognized, and if enacted will eventually extend a measure of old-age security to millions of workers, it seems most desirable not to force a change in existing plans or to discourage more liberal, properly financed future plans, provided:

(a) Benefits exceed those of the Federal plan.

(b) Employers and employees jointly desired such plans. Of course, if certain employees do not wish to continue, or to join upon being employed, they would come under the Federal plan.

(c) Adequate financial provisions have been or are about to be made.

(d) When an employee leaves the employ, the employer would pay to the Government the contributions which would have been made under the Federal plan, together with sufficient interest to give him the status he would have achieved under that plan, or credits could be given him under the employer plan, on a basis satisfactory to the Social Insurance Board.

#### NEED OF LIBERAL EMPLOYER PLANS

8. In my opinion, the proposed contributory pension plan is very liberal for a national act. A comparison with European plans—notably the 10 shillings per week pension in Great Britain and about equal average pensions in Germany—indicates this clearly, even after allowing for the difference in average earnings of the citizens of these countries and our own. The eventual deficit under the proposed plan now before you bids fair to be so large that in no event should the scale of benefits be increased.

9. In spite of the fact that the proposed Federal contributory pension plan is liberal for a national plan to be carried by all employers, whether prosperous or not, its benefits are on the whole substantially lower than those pro-

vided under employer plans of recent origin. Obviously, the proposed legislation should encourage the employer who feels financially able to pension his employees more liberally and is willing to set up the necessary reserves on an actuarially sound basis.

10. No provision is made in the proposed plan for employees who on January 1, 1937, will be age 60 or over, who aggregate a very large number. It is desirable that employer plans should provide for these workers, and, also, that tens of thousands of their former employees now pensioned should continue to receive their pensions. Certainly it would seem desirable for Congress to take no steps that will discourage continuance of satisfactory existing plans or the establishment hereafter of liberal plans properly safeguarded.

11. It may be argued that all employers should bring their employees under the Federal plan, and that those who chose to do so could supplement it by a second plan to any extent desired. This, of course, could be done, but it obviously would be simpler and better to operate a single liberal plan rather than to have the benefits vary as between two parts of the protection program. For example, if the employer portion permitted women to retire at age 60, which is the usual practice, they would receive employer benefits only until age 65, after which they would be entitled to benefits both from the Government and the employer. The same thing would be true of earlier retirements under employer plans because of disability or other reasons, but not provided for under the Federal plan. Experience with pension plans of some of our largest employers indicates that such disability retirements are a substantial proportion of the total number. Under the employer plan, liberal treatment would naturally be given as to the entire benefit.

12. There are definite advantages to the Government in granting employers, an option such as that outlined above because—

*Government relieved of old-age-assistance payments.*—(a) Every employer plan takes care, in a relatively generous manner, of present pensioners and of employees now aged 60 and over who are excluded from the contributory Federal plan and who, if not pensioned by employers, would in part at least involve Government cost through giving them old-age assistance in cooperation with the States.

(b) *Government relieved of old-age annuity payments.*—Every such plan, whose proper financing would be assured in each case, would relieve the Government of some of the deficit which will arise under every Federal pension paid for decades to come because of the admitted inadequacy of the proposed rates of contribution.

(c) *Unemployment payments reduced.*—Every such plan would relieve the proposed unemployment reserve plan of costs, because under employer plans it is customary to pension older employees who have had reasonable service if it is necessary to release them before age 65 because of disability, inefficiency, technological changes, or other reasons. Employees so protected would not involve payments from unemployment reserves. If employers operate only under the Federal pension plan, many would release such employees, who would thereupon draw maximum unemployment benefits and constitute an economic problem for the years prior to age 65 as well as thereafter, because their accrued pensions would be adversely affected by their early retirement from gainful employment.

(d) *Government relieved of details.*—Every such plan would relieve the social insurance board of a considerable amount of detail as to records, investigations, and payment of pensions. Only general supervision would have to be exercised over those plans which would be permitted to operate without participation in the Federal plan. When one takes into account the stupendous task which confronts the social insurance board in administering a plan involving over 25,000,000 citizens, it is obvious that plans should be permitted which will not only reduce the details of operation but at the same time materially benefit a portion of our citizens.

(e) *Total annuity reserves increased.*—The Government wants to restrict the total reserves under the proposed plan, not because larger reserves are inherently unwise but because of the difficulty of investing the money. Life-insurance companies and other pension trustees have found it possible to accumulate safe investments yielding over 4 percent, and their continuing to do so should be encouraged. To the extent that employers' plans, whose benefits include what the Federal plan would provide, set up proper reserves for the entire benefit, the whole financial structure of pensions is strengthened and the Government relieved of the investment of any reserves which support these plans.



(f) *Market for sound securities increased.*—Life-insurance companies and other trustees of employer plans seek conservative and, on the whole, long-time investments, since the heaviest pension obligations are many years away. Government bonds constitute only a moderate portion of such investment portfolios, and the existence of these trusts creates a desirable market for nonspeculative investments. There are no contingencies likely to arise under pension plans which would ever cause the trustees to throw upon the market large blocks of securities and have a detrimental effect upon business in general or upon Government financing in particular.

## CONTROL RETAINED BY GOVERNMENT

13. No such all-inclusive plans would be permitted except by specific approval of the social insurance board, which board could issue the detailed governing regulations which would be required in operating such plans.

14. Since an option to responsible employers to continue or to establish liberal, properly safeguarded pension plans would, if exercised, be highly desirable in the interest of their employees and advantageous to the Government as well, it is hoped that such a provision will be included in the final draft of the bill.

15. To permit of the separation of certified private annuity plans, a new section is suggested. This proposed new section has been given tentatively the number 303 although in the final draft of the bill it might more appropriately follow immediately after section 302.

## ALLOWABLE CREDIT

SEC. 308. (a) Subject to the provision of section 308 (c) hereof, for any period during which an employee elects to be a participant in a certified private annuity plan only, there shall be credited against the tax imposed for that period under section 301 hereof:

(1) The amount of contribution paid by the employee under such a certified private annuity plan or authorized by him to be deducted from his wages and paid under such plan ; or

(2) In the event that the certified private annuity plan is financed by the employer exclusively, the amount paid by the employer under the plan on behalf of the employee in addition to amounts paid by the employer under section 308 (b) hereof.

In cases where such credits are allowable, the amount to be collected and paid under section 301 hereof shall be the amount of taxes imposed thereunder less such credits allowable.

(b) Subject to the provisions of section 308 (c) hereof, for any period during which an employer operates a certified private annuity plan there shall be credited against the tax imposed for that period under section 302 hereof upon the pay roll of such employees as elect to participate in such certified private annuity plan, the amounts paid by such employer under such certified private annuity plan in respect of such participating employees. In cases where such credits are allowable, the amount to be collected and paid shall be the amount of taxes imposed less such credits allowable.

(c) Such credits shall be allowed to any employer or employee operating under a plan which has been certified by the Social Insurance Board to the Secretary of the Treasury as conforming to the following minimum requirements :

(1) Only such employees shall come under such private annuity plan as elect to do so.

(2) The annuities provided under such private plan shall, as to such employees, be not less than those otherwise payable under section 405 of this act.

(3) The aggregate contributions to such private plan by employees and employer shall not be less than the aggregate taxes provided by sections 301 and 302 hereof.

(4) Such contributions shall be deposited currently with a life-insurance company, or other trustee, approved by the Social Insurance Board.

(5) Upon withdrawal of an employee from such private plan there shall either (A) be paid into the Treasury of the United States on behalf of the withdrawing employee out of the funds of such private plan, a sum equal to the credits allowed as to such employee under section 308 (a) and 308 (b) hereof, together with interest accretions as determined by the Social Insurance Board, or (B) be provided, subject to the approval of the Social Insurance

Board, for such employee, a deferred annuity not less in amount than would otherwise have been credited to him under section 405 of this act.

(6) Upon the death before retirement, of an employee covered under such private plan, there shall be paid to his legal and/or actual dependents, a sum not less than the amount of the tax imposed under section 301 of this act during the period of membership in such plan together with interest thereon as determined by the Social Insurance Board.

(7) Upon the death after retirement, of an employee covered under such private plan, there shall be paid to his legal and/or actual dependents, a sum equal to the excess, if any, of the amount stated in section 308 (c), paragraph 6, over the annuity payments which would have been otherwise payable to him under section 405 of this act.

(d) For the purpose of calculating any annuities that may be payable under section 405 of this act, membership in such certified private annuity plan shall give the employee the same rights as to date of entry under this act as if taxes had been paid on his behalf under sections 301 and 302 hereof from the beginning of his membership in the private plan.

(e) Any employer may make written application to the Social Insurance Board for certification to the Secretary of the Treasury of an existing or proposed private annuity plan as being in conformity with the requirements of section 308 (c) hereof, accompanying such application by as full description of the plan and such other proof as may be needed that the plan does conform to these requirements. Within 90 days of the filing of such an application, it shall be the duty of the Social Insurance Board either so to certify the plan or to notify the applicant of the particulars wherein the plan does not conform to the minimum requirements as stated in section 308 (c) hereof. A plan so certified shall be known as a "certified private annuity plan."

(f) The Social Insurance Board shall have the right to call for such reports from the employer and to make such inspections of his records as will satisfy it that the requirements are being met and in general to make such regulations as will facilitate the operation of such certified private annuity plans.

(g) Any certification given by the Social Insurance Board in accordance with this section shall be revoked.

(1) Upon the request of the employer, or (2) upon failure of the employer to fulfill the requirements of section 308 (c) hereof.

In either event, the employees covered under the certified private plan shall be treated as withdrawing employees as provided in section 308 (c), paragraph 5.

(h) Upon withdrawal of an employee from a certified private annuity plan, the Social Insurance Board shall either approve such deferred annuity as is described under subsection (c) 5 (B) of this section, or shall certify to the Secretary of the Treasury the amount to be paid as in subsection (c) 5 (A) of this section.

Upon such certification, the amount so certified shall be collected by the Bureau of Internal Revenue under the direction of the Secretary of the Treasury.

16. It might be desirable, that this whole idea should be covered in much more brief and general language and accordingly we submit below a possible alternative amendment :

#### PERMITTED PRIVATE ANNUITY PLANS

SEC. 308. (ct) Any employer who demonstrates to the satisfaction of the Social Insurance Board that a private annuity plan proposed or in operation provides, as to any employee who elects to join such plan, benefits not less than those set forth in section 405 hereof, and that contributions toward such plan not less than the aggregate of taxes specified in sections 301 and 302 hereof are being or will be deposited with a life-insurance company or trustee acceptable to the Board, shall be permitted to operate such plan and, as to any employee who elects to join it, there shall be credited to such employee and his employer, against the taxes imposed under sections 301 and 302 hereof, the contributions made by him or on his behalf to such private annuity plan. The amount to be collected and paid under sections 301 and 302 hereof, shall be the amount of taxes imposed thereunder less such credits allowable.

(b) For the purpose of calculating any annuities that may be payable under section 405 of this act, membership in such a permitted private annuity plan shall give the employee the same rights as to date of entry under this act as if taxes had been paid on his behalf under sections 301 and 302 hereof, from the beginning of his membership in the private plan.

(c) The Social Insurance Board shall have the power to make such rules and regulations as will facilitate the operation of such permitted private annuity plans, and shall have the right to revoke such permission either upon the request of the employer or upon the failure of the employer to fulfill the requirements of this section.

Senator KING. Mr. Reymond, of Binghamton, N. Y.

STATEMENT OF M. H. REYMOND, BINGHAMTON, N. Y.

Mr. REYMOND. My name is M. H. Reymond. I appear as an ordinary citizen, not in behalf of any special interest or group.

Senator KING. What is your business, Mr. Reymond?

Mr. REYMOND. My business is industrial engineering. I have done work for many well-known companies. In that connection I have had occasion to observe the problem of insecurity in industry at the place where it is actually developed. I have also made a careful study of the general problem of industrial depression and unemployment during the past 15 years.

What I propose to show is as follows: First, that the currently agitated theory of trying to create prosperity by increasing the benefits under the present bill is an economic delusion; and, second, that even if the benefits are not increased, this bill, if enacted into law, will have a retarding influence upon our recovery from the existing unemployment.

I also propose to place the general subject of economic security before this committee in a new light that I believe may prove helpful not only in appraising this particular bill but also in appraising other legislation that is constantly coming before you.

In order to keep myself from wandering away from the subject and to conserve time, I have prepared a preliminary statement which I estimate will take about 10 or 15 minutes. I assume it is satisfactory to go ahead on that basis.

Senator KING. You can have 10 minutes. Read it as rapidly as you can.

Mr. REYMOND. While I am thoroughly in sympathy with the humanitarian impulses behind the present economic security bill, I am concerned about the prospect of its turning out to be another one of those well-intentioned things that, at a time like the present, may do more harm than good. This danger is particularly great if this bill is looked upon as an agency wherewith to create prosperity and the expenditures under this bill are extended under the delusion that expenditures of this kind can create prosperity. The economic fact is just the reverse. Even if this bill is passed without any additions to the proposed expenditures, its effects will be to retard recovery and extend somewhat the time until our vast army of unemployed workers shall have been reabsorbed by private industry.

I submit that if legislation of this kind should be passed at all at the present time, it should be purely on the ground that the humanitarian benefits will outweigh the economic disadvantage of putting a damper on recovery from unemployment.

I will now try to show why legislation of this character will retard the solution of the existing unemployment problem.

In order intelligently to appraise the influence upon unemployment of legislation of this character or of any other legislation for that matter—it is necessary first of all to understand what causes